

# Reframing Public Finance

## Promoting Justice, Democracy, and Human Rights in Government Budgets

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# 1. INTRODUCTION

Government budgets, it was once said, are “the skeleton of the state stripped of all misleading ideologies”<sup>1</sup>. By laying bare the real intentions of a government in terms of taxing and spending, government budgets are where the rhetorical rubber of electoral manifestos and policy statements hits the rocky road of implementation and service delivery. As a decision on how public resources are to be raised and spent, they are the yearly embodiment and expression of the social contract that binds a state and its citizens together. And as a means for (re)distributing these resources, they are a key arena of political negotiation and for ensuring accountability.

Government budgets affect people’s lives in many different ways. Budget policies – e.g. decisions on how a government taxes, borrows, and spends – have a deep impact on economic performance, income distribution and service delivery. And budget processes – the formal and informal norms and institutions within which such decisions are taken – largely determine who has a voice and gets to influence those decisions.

Current approaches to public finance and government budgeting are based on models – or interpretation of models – that combine a heavy focus on macroeconomic stability and fiscal discipline with a supposed value-neutral stance on many important issues related to how the costs and benefits of public finance decisions are distributed, and the impact that they may have on people’s lives. When implementing Richard Musgrave’s classic three-pronged definition of the key functions of public finance (stabilization, allocation, distribution), governments have too often given precedence to stabilization – interpreted as the need to keep both deficits and inflation low.<sup>2</sup> Similarly, within the commonly adopted definition of the objectives of public expenditure management formulated by the World Bank (aggregate fiscal discipline, resource allocation, operational efficiency), fiscal discipline tends to overrule other considerations, while resource allocation is simply expected to follow the priorities set by the government of the day, regardless of their distributive or development impact.<sup>3</sup> This doesn’t mean that issues of equity, distribution and the impact of fiscal policies on poverty and inequality have been absent from public finance debates.<sup>4</sup> Rather, they have tended to be limited to restricted academic or policy circles, and overshadowed by other concerns in public debates.

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<sup>1</sup>This quote is attributed to Austrian sociologist Rudolf Goldscheid by Joseph A. Schumpeter. See J.A. Schumpeter (1918). “The Crisis of the Tax State.” In R. Swedberg (ed.) Joseph A. Schumpeter: The Economics and Sociology of Capitalism. Princeton University Press (page 100).

<sup>2</sup> See R. Musgrave (1957). “A Multiple Theory of Budget Determination”, Finanzarchiv, N.F., 17(3): 333-343.

<sup>3</sup> See World Bank (1998). Public Expenditure Management Handbook. World Bank.

<sup>4</sup> See, for example, D. Van de Walle and K. Nead (eds.) (1995). Public Spending and the Poor: Theory and Evidence. Washington, DC: World Bank; A. Shah (ed.) (2005). Public Expenditure Analysis. Washington, DC: World Bank; S. Paternostro, A. Rajaram and E.R. Tiongson (2007). “How Does the Composition of Public Spending Matter?”, Oxford Development Studies, 35(1):47-82; F. Bastagli, D. Coady and S. Gupta (2012). Income Inequality and Fiscal Policy. IMF Staff Discussion Note SDN/12/18. Washington, DC: International Monetary Fund.

This paper outlines the elements of a proposal to reframe debates around public finance and government budgets, giving more attention to issues of allocation and distribution and drawing on the inter-related concepts of **justice**, **democracy**, and **human rights**. The idea is that the proposed reframing will contribute to the broader field of fiscal accountability by proposing a more solid normative foundation on which public finance decisions can be assessed and taken, and thereby addressing some of the shortcomings of current approaches. This is particularly important vis-à-vis the continuing global challenges of persistent poverty, growing inequality, and of environmental sustainability, but also as a response to the rise of right-wing populism across many countries.

Work – both theoretical and practical – looking at public policies and public finance through the lenses of justice, democracy, and human rights has been around for some time, and debates around inequality have been receiving increased attention – think of Oxfam’s recent campaigns, Thomas Piketty’s bestselling tome, or the International Monetary Fund (IMF)’s recent publications on fiscal policy and inequality<sup>5</sup>. However, much of this work has taken place within specific communities of practice, and has not managed to reach a wider audience, let alone have a significant influence on the predominant public finance paradigm.

The effort behind this paper stems from ongoing reflections and discussions, both within the International Budget Partnership (IBP) and between IBP, its partners and other individuals and organizations<sup>6</sup>. Some of the ideas discussed here are already being incorporated in IBP’s future strategy, but we hope that they will contribute to broader debate with all relevant actors, including governments and international institutions. They should be seen as work in progress, as there are still a number of gaps and unanswered questions.

The next section sets out the main argument and outlines the key elements of an alternative public finance framework. In the following sections, we discuss each of the three key concepts of justice, democracy, and human rights in turn, including their relevance and application to public finance and government budgets, and some of the challenges that that implies. The concluding section recaps the key points and lays out the main challenges going forward.

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<sup>5</sup> See <https://www.oxfam.org/en/campaigns/even-it-up>; T. Piketty (2014). *Capital in the Twenty-First Century*. Cambridge, MA: Harvard University Press; and, for example, IMF (2017). *Fiscal Monitor: Tackling Inequality*. Washington, DC: International Monetary Fund.

<sup>6</sup> An earlier version of this paper was presented and discussed at two workshops organized by IBP, one with many of its partner organizations in June 2016 and another with a mix of academics and practitioners in December 2017. We would like to thank all participants for contributing ideas and suggestions which informed this revised version.

## 2. REFRAMING PUBLIC FINANCE: WHAT IS WRONG WITH THE CURRENT APPROACH, AND WHAT MIGHT AN ALTERNATIVE LOOK LIKE?

The limitations of current thinking and practice in the area of public finance and government budgets, and their consequences, can be summarized as follows:

- **An overemphasis on fiscal discipline and economic growth relative to equity and service delivery.** Public debates around government budgets tend to narrowly focus on two issues: deficits and growth. “Is the fiscal deficit too large?” and “will the budget promote investment and growth?” are the two main questions that are most often asked by the media, financial markets, and international institutions when governments present fiscal policy statements and budget proposals. In fact, fiscal policies across the world are often dictated by the mantras of maintaining fiscal discipline – i.e. with its focus on low levels of deficits and debt – and keeping taxes low to stimulate private investment and therefore growth. This has limited the fiscal space that governments have and has relegated issues such as income redistribution and the delivery of quality services to a secondary level of objectives. Fiscal discipline and economic growth are important, of course, but on their own they do not necessarily lead to improvements in people’s lives and cannot be considered as the sole ends of fiscal policy.
- **Skewed distribution of costs and benefits.** Budget policies can be used to favor powerful actors and their vested interests, rather than the poorer, more marginalized sections of the population. In many countries, for example, rich individuals and large corporations are allowed to take advantage of loopholes to hide their wealth and profits in off-shore tax havens – as amply documented recently in the *Panama Papers* and *Paradise Papers* leaks – or use their lobbying and influence to obtain fiscal benefits and incentives, while poorer people often end up paying a higher share of their income in taxes, even when they work in the informal sector. Similarly, powerful political actors influence resource allocation in ways that benefit their clientele at the expense of the wider public, while weak procurement systems and collusion between corrupt public officials and large contractors often result in low-quality, overpriced capital investment projects that fail to deliver on their expected benefits.
- **Limited space for citizen involvement and broad debate and deliberation.** Overall, public debate around governments’ policy choices and their budgetary implications is weak or non-existent, and decisions on policies and budgets are taken through processes from which average citizens – let alone poor and marginalized groups – are largely excluded, and through which they have limited ways of holding key decision-makers accountable. Publicly available information on policies and budgets does not facilitate meaningful debate and deliberation – i.e. a process in which all actors in society are able to form opinions

and contribute to decision-making, and governments are required to justify and defend their decisions in the public domain.

- **An overly technical approach to budget reforms.** The current “paradigm” of Public Financial Management (PFM) – as government budgeting is often referred to – tends to remain neutral about how public resources are allocated or spent – except for some indication of “pro-poor” budget items that need to be protected, like basic health and education. There is more interest in the PFM field in improving budget processes, but often with a narrow focus on technical aspects of PFM reforms – such as introducing medium-term budget frameworks or digitizing expenditure chains – that happen within the executive arm of government, and that often have limited impact on budget outcomes.

The confluence of these factors contributes not only to growing levels of inequality and to persistent poverty and exclusion, but also to people’s growing disaffection with governments, with whom they feel little connection and on whom they are able to exert limited influence.

A number of international civil society groups, including Oxfam and the Tax Justice Network, for example<sup>7</sup>, have denounced the prevailing approach to public finance and some of its consequences, and promoting initiatives to address some of the limitations identified above. Despite growing interest and some improvements at the international level – for example in relation to budget transparency – overall impact has been limited. This is inevitably due to the complexity of the issues at hand, and to the formidable political challenges that civil society faces when trying to subvert existing power structures. But it could also be partly due to the fact that the proposed solutions do not sufficiently question the basic tenets of the current approach to public finance, and do not offer a comprehensive alternative.

We think that such an alternative approach should aim to put people – human beings with their needs and aspirations – back at the center of government policy-making and of budget processes and should be based on the complementary principles of **justice, democracy, and human rights**.

**Justice** is a complex concept, which has been debated for centuries and often means different things to different people.<sup>8</sup> A common conception of the word “justice” relates to the impartial administration of the law, including punishing those who break it. For our purposes, we are mostly concerned with the *distributive* rather than *retributive* aspects of justice, as they apply to the social and economic domain, therefore looking at how wealth, opportunity and privilege are shared in a society, and the extent to which they conform to some definition of

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<sup>7</sup> See <https://www.oxfam.org/en/campaigns/even-it-up> and <https://www.taxjustice.net/>.

<sup>8</sup> See, for example, A. Sen (2009). *The Idea of Justice*. Harvard University Press.

equity and fairness. But we think that *procedural* aspects of justice, which address the fairness of the process through which justice is promoted and realized, are also important.

Drawing on a broad range of theories of justice, and their relevance to socioeconomic matters, it is possible to identify different aspects or interpretations of the concept of justice which have implications for public finance and government budgets.<sup>9</sup> These include:

- **Promoting equality.** If “all men are created equal”, then justice means ensuring that the promotion of equality becomes a policy objective for governments to pursue. This can be interpreted in different ways, however, including ensuring equality of opportunities, and/or addressing and reducing inequalities in wealth and income. Given the multiple dimensions of equality, this interpretation of justice is related to most – if not all – of the other interpretations that follow.
- **Addressing need.** This is based on the widely shared idea that “those who need more should get more,” and reflects a concern for the least well-off members of society. It can also be interpreted as “the basic needs of all people should be met,” which in turn calls for distributing a minimum share of resources to everyone.
- **Increasing efficiency.** Some think justice is best promoted by using resources to maximize aggregate output and avoid waste. Resources should be distributed according to those objectives, even if unequally, to ensure that there are more resources to distribute across individuals.
- **Rewarding effort.** According to this definition, individuals deserve to receive resources in proportion to their efforts, so people who put in more effort should be entitled to more resources and better outcomes, even if this increases inequality.
- **Ensuring a fair process.** Apart from policies and outcomes, considerations of justice require that the processes through which decisions are arrived at embody principles that are deemed fair, and where, for example, all relevant stakeholders have access to information and the possibility to affect decisions that impact them.

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<sup>9</sup> These ideas draw on J. Konow (2003). ‘Which Is the Fairest One of All? A Positive Analysis of Justice Theories’, *Journal of Economic Literature*, Vol. XLI: 1188-1239 and on IBP’s work on equity in intergovernmental relations in Kenya (see J. Kinuthia and J. Lakin (2016). *A Fair Share of the Budget: Principles and Practices in Public Resource Distribution in Kenya*. International Budget Partnership).

Such a multi-dimensional concept, characterized by overlapping and often contradictory definitions, is inherently challenging as the basis for the proposed exercise of reframing the normative basis of public finance. At the same time, it helps raise issues that should be at the center of policy debates, and therefore is too important to be ignored.

**Democracy** is another difficult concept to pin down. The most widely accepted definition of democracy is minimalist and focuses on the holding of regular elections.<sup>10</sup> A democracy is a regime in which there are *free and fair elections* and people are consequently governed by elites they have chosen through the ballot box. This definition captures more than may initially appear if we interrogate the conditions necessary to render elections free and fair. Plausibly, these include a free media, free speech, free association, minimum levels of education, and so on. The problem with a minimalist definition, however, is that it overemphasizes elections; modern democrats value what happens between elections as much or more than the elections themselves.

Liberal representative democracy can bring us closer to what many democrats have in mind, because it includes not just some of the freedoms mentioned above, but also ideas about institutional checks and balances, such as an independent judiciary, civilian control of the military, and the separation of powers, all of which are important for how decisions, including those related to budgets, are made and implemented between elections.<sup>11</sup> Some liberals would also argue that, in order for liberal democracy to function, all citizens must have a minimum set of what Rawls called “primary goods”, such as income and education.<sup>12</sup> This has further budget implications. Still, liberal representative democracy falls short of what many expect from democracy. Among other weaknesses of the liberal conception of democracy is that it does not put enough emphasis on ensuring that elected representatives truly represent the interests of their constituents, on meaningful deliberation about trade-offs, or on genuine public participation in decision-making.

Many advocates therefore now argue for deliberative democracy and other forms of “post-representative” democracy that attempt to remedy these weaknesses.<sup>13</sup> Such conceptions require greater budget transparency, but also formal spaces for ongoing deliberation about the budget in which the wider public, and not just their representatives, can participate directly.

**Human rights** have been defined over the past decades as universal and inalienable through a series of international treaties, and then ratified and converted into domestic laws by a large majority of countries in the

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<sup>10</sup> J.A. Schumpeter (1976 [1942]). *Capitalism, Socialism, and Democracy*. London: Allen and Unwin.

<sup>11</sup> L. Diamond (2009). *The Spirit of Democracy*. St. Martin's Griffin.

<sup>12</sup> J. Rawls (2005). *Political Liberalism*. Columbia University Press.

<sup>13</sup> A. Guttman and D. Thompson (2004). *Why Deliberative Democracy?* Princeton University Press; J. Keane (2009). *The Life and Death of Democracy*, W.W. Norton,

world. They include: (a) *civil and political rights*, such as the right to life, equality before the law, and freedom of expression; (b) *economic, social, and cultural rights*, such as the right to work, social security, and education; and (c) *collective rights*, such as the rights to development and self-determination. Human rights treaties – and the obligations that these generate for the governments that ratified them – provide a fundamental backbone for both justice and democracy demands and can usefully be applied to both budget policies and processes. A lot of work has already gone into spelling out the linkages between a human rights framework and government budgeting, and what governments’ obligations are with respect to delivering on their human rights commitments from a budgetary perspective.<sup>14</sup> To start with, ensuring that basic human rights – even negative rights to have one’s freedoms not infringed upon – are protected, has costs that governments are expected to bear.<sup>15</sup> Realizing economic, social, and cultural rights has even more direct implications for government spending. As duty bearers, according to international human rights law, governments should promote the *progressive realization* of human rights for all, through the allocation of *maximum available resources* and without *discrimination*. These provisions have substantial budgetary implications, especially in developing countries, even though these are often not followed in practice.

In the remainder of this paper, we will outline some of the ways in which such an alternative approach to public finance and government budgets could be promoted and identify specific areas that could be used as building blocks and singled out as focus for needed reforms. Many of these are areas where a number of civil society groups already work; in this case, we hope that the new approach can help better frame issues and sharpen analysis and advocacy strategies.

### 3. LOOKING AT PUBLIC FINANCE FROM THE PERSPECTIVE OF JUSTICE

How can principles of justice be incorporated into government budgeting? The first challenge is to recognize the broad set of views that exist on what justice actually means, as already mentioned above. As different people subscribe to different definitions or interpretations of what justice means, it might be difficult to see how it should be used as a tool for guiding decision-making around public finance and government budgets. Yet, we argue that it is not difficult to see that issues of *need* and *equality* are the ones that deserve most of our attention here. The focus on economic growth as a key goal of public finance means that the *efficiency* aspect of justice – embodied by the maximization of aggregate output – has already received considerable attention under the existing public finance paradigm, albeit overlooking its distributional impacts. Moreover, in our view, while promoting justice in budgeting should allow space for the recognition and reward of significant and legitimate personal *effort* in the

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<sup>14</sup> See, for example: A. Nolan et al. (eds) (2014). *Human Rights and Public Finance: Budgets and the Promotion of Economic and Social Rights*. Hart; OHCHR and IBP (2017). *Realizing Human Rights Through Government Budgets*. United Nations.

<sup>15</sup> S. Holmes and C. R. Sunstein (1999). *The Cost of Rights: Why Liberty Depends on Taxes*. W. W. Norton & Company.

distribution of resources, we should nevertheless prioritize principles that yield greater equality relative to others. Finally, arguments in favor of justice as fair *process* remain important, but in the context of our discussions are best left to the next section looking at democratizing public finance.

Reframing public finance and government budgeting from the perspective of justice, therefore, means putting the satisfaction of people's (basic) needs and the promotion of equality as key policy objectives of governments, alongside – and not secondary to – maintaining fiscal discipline and stimulating economic growth. A good starting point to understand what that might mean in practice is identifying a series of policy issues where some serious rethinking and reorientation is needed, highlighting the kinds of analyses and reforms that the proposed reframing would suggest. For this purpose, we divide relevant budget policy issues into four broad areas: 1) fiscal reform and tax justice; 2) resource allocation and spending; 3) service delivery and performance; and 4) deficit, debt, and financing. Of course, the following is only a suggested list of topics, and includes some on which quite a lot of work is already happening.

## 1. FISCAL REFORM AND TAX JUSTICE

Tax policy and revenue collection is one area where considerations of justice are particularly important. How a state taxes its citizens – through direct or indirect taxation, looking at personal and corporate income, wealth vs. consumption, etc. – determines how the burden of financing public spending is distributed. In this area, it is important to look at the overall progressivity of a tax system, or at whether it proportionally asks more of those who are better off in terms of income and wealth. Issues related to justice are also relevant when looking at more specific revenue sources and at their redistributive potential – including personal and corporate income tax, consumption taxes like Value Added Taxes and the like, and taxes on property, inheritance, and capital gains<sup>16</sup>. In countries that depend on natural resources for much of their revenue, fiscal regimes around resource extraction – including issues of contract negotiation, definition of royalty systems, and taxation of income and rents from extractive activities<sup>17</sup> – are also worthy of attention to ensure that resource revenues generate maximum value for citizens.

Another important aspect of budget policy relates to taxes that are not paid. This includes discussions on tax evasion and tax avoidance, or the strategies that individuals and companies adopt to pay less taxes than they should, whether illegally or legally. Research by the IMF estimated the revenue loss from tax avoidance for

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<sup>16</sup> For a recent discussion on reform agendas, see W. Prichard (2018). What Might an Agenda for Equitable Taxation Look Like? ICTD Summary Brief 16. International Centre for Tax and Development.

<sup>17</sup> See, for example, <https://resourcegovernance.org/approach/natural-resource-charter/precept-4-taxation>, and IMF (2012). Fiscal Regimes for Extractive Industries: Design and Implementation. Washington, DC: International Monetary Fund.

developing countries at around \$200 billion every year, more than these countries receive in foreign aid<sup>18</sup>. It should also include an assessment of the large amount of “tax expenditures”, including fiscal incentives and tax breaks of different kinds that are legally approved by governments, with limited oversight and often for questionable reasons. Tax expenditures are often kept off-budget, and can amount to several percentage points of GDP and more than 20 percent of total revenue.<sup>19</sup> Some fiscal incentives might be perfectly justified for stimulating economic activity and protecting strategic sectors, but too often they are rather the result of political meddling and industry lobbying, or end up outliving their usefulness and failing to live up to their expected impact. This has serious consequences on the overall impact of fiscal policy on equality, and on resources available for public spending.

## 2. RESOURCE ALLOCATION AND SPENDING

Issues related to resource allocation and spending have probably been the most scrutinized and researched in relation to budget justice. Think of the widespread work on gender budgeting and budgeting for children, for example, which focuses on how much is allocated for specific, often disadvantaged groups. Similar approaches have been followed with relation to indigenous groups, low castes in India, etc. This work is very important in bringing attention to how much public spending responds to the needs of disadvantaged and marginalized groups, even though that is not something that is easy to ascertain, and few governments take direct action and report on it explicitly<sup>20</sup>. Some US cities like Seattle and Madison have set up initiatives to address racial inequalities and to promote equity and social justice in their policies and budgets, for example.<sup>21</sup> And the Government of Scotland has developed a systematic approach to assessing budget decisions for their impact on equality; every year, it publishes an “Equality Statement” alongside its budget proposal, which details actions being taken to address inequality by sector and by population groups<sup>22</sup>.

Issues of equity in resource allocation are also very important when it comes to the geographic distribution of resources<sup>23</sup>, or to allocation of resources across and within sectors. Studies across a wide range of countries have shown, for example, how public spending often does not address regional inequalities, distributing resources without taking into account the socio-economic disparities that exist across sub-national territorial units. Distribution of public resources across sectors has possibly been the focus of the most attention – also because of

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<sup>18</sup> See E. Crivelli et al. (2015). Base Erosion, Profit Shifting and Developing Countries. IMF Working Paper No. 15/118. International Monetary Fund.

<sup>19</sup> See L.Z. Swift (2006). Managing the Effects of Tax Expenditures on National Budget. World Bank Policy Research Working Paper 3927. Washington, D.C.: World Bank.

<sup>20</sup> See P. de Renzio (2019). Full Disclosure: How transparent are governments when it comes to the budget's impacts on poverty and inequality? IBP Brief. International Budget Partnership.

<sup>21</sup> See <http://www.seattle.gov/rsji/> and <https://www.cityofmadison.com/mayor/priorities/racialequity.cfm>.

<sup>22</sup> See <https://beta.gov.scot/policies/equality/mainstreaming-equality/>.

<sup>23</sup> See, for example, the work of IBP Kenya on equity in intergovernmental transfers.

the “pro-poor budgeting” drive behind foreign aid interventions over the past couple of decades<sup>24</sup>. It is within sectors, however, that many justice-related issues are probably most relevant. Budget policy choices to spend on primary vs. non-primary education and healthcare, for example, or around investments on infrastructure and economic development, as difficult as they are to evaluate in terms of their actual impact on poverty and distribution of costs and benefits, remain key to ensuring that budget policies are re-oriented towards the satisfaction of basic needs and more equitable outcomes<sup>25</sup>.

Budget execution is another area that has received increasing attention, as it has become clear that budgets are often “better made than they are executed”<sup>26</sup>. During budget execution, public resources are often diverted from their original purpose through non-transparent reallocation practices, which makes year-end execution reports look quite different from originally approved budgets<sup>27</sup>. As many Public Expenditure Tracking Surveys have found, public funds also do not easily make their way all the way down to service delivery units, creating disruptions and undermining the reach and quality of service provision. Finally, much of public spending takes the form of government procurement and contracting; this is an area where issues not only of transparency and due process, but also of efficiency and effectiveness are paramount, and on which the potential impact of public spending crucially depends. All of the above can have important consequences for equality, and points to the need for analysis and monitoring that puts more emphasis on the execution stage of the budget.

### 3. SERVICE DELIVERY AND PERFORMANCE

While government budgets mostly deal with numbers and financial information, their purpose is to transform financial resources into the delivery of goods and services to the population. Three aspects are key to thinking about service delivery from a justice perspective: (a) access; (b) quality; and (c) impact. Ensuring universal and equitable access to key basic services is one important aspect of public policy that is related to needs and equality concerns. Access-related issues go well beyond physical *accessibility* and need to include financial *affordability* with relation to household income, and socio-cultural *acceptability*, to ensure that services provided best respond to people’s needs. All of these aspects have clear budget implications. But access serves a limited purpose without connected improvements in the quality of the services that governments provide. Free universal primary education – a policy initiative that many governments have undertaken – may not mean much if the quality of education is poor, e.g. school infrastructure is poor, teachers lack training and are often absent, etc. It is only a

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<sup>24</sup> See R. Simson (2012). Following the money: Examining the evidence on ‘pro-poor’ budgeting. Overseas Development Institute.

<sup>25</sup> See E. Anderson et al. (2006). The role of public investment in poverty reduction: theories, evidence and methods. Overseas Development Institute.

<sup>26</sup> M. Andrews (2010). How Far Have Public Financial Management Reforms Come in Africa? HKS Faculty Research Working Paper Series, RWP 10-018. Cambridge, MA: Harvard Kennedy School.

<sup>27</sup> See <https://www.internationalbudget.org/analysis-insights/budget-credibility/> for IBP’s work related to the topic of budget credibility.

combination of access and quality that can guarantee lasting development impact of public spending. A focus on access, quality, and impact of public services could provide a useful alternative to the simplistic focus on resource allocation mentioned above and shift the focus to the effectiveness of public spending in achieving development outcomes. It does, however, require broadening the scope of analysis beyond core budget policies and processes, into other public management areas like planning, human resource management, and performance management.

#### 4. DEFICIT, DEBT, AND FINANCING

A budget policy discussion would not be complete without mentioning one of the issues that most often captures headlines when it comes to government budgets: the fiscal deficit, and related discussions about how that gap between spending and revenues can and should be filled. Decisions about the size and financing of budget deficits, and therefore about the size and composition of government debt, have important implications for justice. First, the size of the deficit is often a key determinant of so-called “fiscal space”, or the room for maneuver that governments look for in the management of public finances. A larger deficit today will allow for more spending – and therefore more services to be delivered – even in the presence of a revenue shortfall. A key aspect of this debate is therefore what kind of criteria governments use to determine what an acceptable level of deficit is, for what purpose the additional resources will be used, and to what extent this will generate returns that will allow the government to pay off future debt. The second key aspect of this debate provides a counterpoint to the first one. Today’s fiscal deficits are tomorrow’s debts, which at some point in the future will need to be repaid. This represents a burden on future generations that they did not choose to bear, and which should be taken into account when considering today’s choices. Inter-generational equity considerations cannot be simply brushed aside when discussing budget policy choices, alongside broader issues around the long-term sustainability of fiscal policy.

### CHALLENGES TO APPLYING THE JUSTICE FRAME

Considerations of distributive justice, and of the impact of fiscal policies on people’s needs and on equality, are not absent from public finance debates and discourses, and in many of the areas identified above there is a lively debate on their significance and implication. Attempts to use and promote a justice frame in public finance and government budgeting, however, highlight a series of challenges that need to be addressed in order to shift the debate. These include:

- **Too often, debates that focus on need and equality are limited to contributions by academics and activists, with limited engagement by governments.** Even when governments engage, findings and recommendations are not always translated into government policy. This is especially true during times of economic crises, when governments use the argument of fiscal austerity to avoid considering

the impact of budget choices on needs and equality. A new framework and narrative that put justice considerations at the core of fiscal policy formulation and implementation could make a big difference in such situations. Yet, resistance to such an approach would likely come from many quarters, including the “guardians” of the current public finance consensus – from finance ministries to financial markets to international institutions, but also elites and powerful actors whose interests could be threatened by such a shift.

- **The various definitions of “justice” may create arguments and disagreements that are difficult to resolve.** While we think that the most important and neglected definitions of justice that should be promoted in public finance and government budgeting are those related to *need* and *equality*, others may argue that *effort* and *efficiency* are more important. This, in fact, can at least partly be interpreted as an old left vs. right debate in political terms, and one in which the discourse in recent decades has clearly been dominated by the right (although some would argue from the left that those who put in the most effort—labor—are benefitting the least from the current paradigm). Are we sure that most people identify with definitions of justice that put more emphasis on needs and equality? If so, how can the terms of the debate be shifted so that this becomes the predominant view in policy circles as well?
- **It may be politically difficult to pursue multiple justice objectives at the same time and challenging to assess the resulting tradeoffs using a justice framework.** Politically feasible policies might address needs, for example, while allowing inequality to grow. A conditional cash transfer might address the needs of the poor but not address rising inequality. Alternatively, policies may reduce inequality but be inefficient or fail to address needs. For example, a tax on the wealthy might be politically feasible but only by providing benefits to those who do not need them the most, or at the cost of certain activities that promote aggregate welfare. When we make choices among the set of politically feasible policies from a justice lens, it is not entirely clear how to trade off the different aspects of justice.
- **Generating the evidence necessary to apply justice criteria to fiscal policy choices requires data and information that is often not available.** Understanding people’s needs and how they can best be met and assessing the distributional impact of different taxation and spending options is not an easy task, and one that often requires detailed data and sophisticated analytical capacities. While these may be readily available in rich countries, the same does not hold across the majority of developing countries. This might allow various actors to call into question some of the policy recommendations based on a justice frame and make assessment of policy alternatives very difficult.

## 4. DEMOCRATIZING PUBLIC FINANCE

Re-thinking and re-orienting budget policies along some of the lines set out above is not likely to be an easy task, given the complexities of the issues involved and the powerful interests at play. One possible approach to promoting the reorientation of budget policies towards more justice is to take a critical look at the way in which budget processes are currently organized and think of ways in which they could be “democratized”. What does democratizing public finance mean? We focus on three areas: 1) strengthening the institutions of liberal democracy, which include representative and accountability institutions; 2) creating better conditions for deliberation about trade-offs in budgets (more transparency, improved reasoning, etc.); and 3) new “post-representative” and participatory spaces for engagement and deliberation that are inclusive and allow the public to influence policy and budgets more frequently and directly than is currently the case.

### 1. STRENGTHENING LIBERAL INSTITUTIONS

This first area of work recognizes that the core institutions that are supposed to both represent the public’s interests and balance the executive remain weak in many democracies. For example, in some cases legislatures are unable to effectively amend budgets or to ensure that the executive is faithful to the approved budget during implementation. Also, in many countries legislators fail to represent the interests of their constituents, but rather advance their own interests and the interests of a narrow elite more broadly. Auditors produce reports, but some are of poor quality, and many of those of higher quality are ignored or have no significant impact on budget practice. In such situations executives would be able to break the law and ignore financial regulations with impunity.

An agenda that focuses on the democratization of public finances would first look to improve how these core institutions function so that they can deliver on their mandates. Without them, the theory of democratic governance of the budget will inevitably remain distant from the practice. This work would look at the accountability system as a whole, and not just at individual institutions. For example, building relationships between legislatures and auditors is as crucial as enhancing the independence, strength, and capacities of each institution. The promotion of independent fiscal institutions, like fiscal councils or parliamentary budget offices, are also important to ensure the availability of credible information for all stakeholders, and to ensure an adequate balance between different institutions.

While perhaps more controversial, it is arguably important to also consider other institutions of liberal democracy, such as political parties, when we think about strengthening democratic institutions. Ultimately, all modern democracies rely on political parties for purposes of citizen representation, and these parties have influence on

budget policies. If we conceptualize our work as strengthening democracy, then it is hard to justify ignoring these institutions, even if engaging with them also entails risks.

## 2. CREATING BETTER CONDITIONS FOR BUDGET DELIBERATION

Liberal representative democracy cannot function well without transparency, and a culture or set of practices that encourages meaningful deliberation by public institutions as well as by the wider public. Democratization of public finances therefore also implies a continued emphasis on deepening transparency and promoting deliberation, particularly over the most difficult trade-offs in the budget. A democratic agenda assumes that decisions about the proper way to allocate public resources should emerge from informed deliberation by government institutions and the wider public. For this deliberation to be meaningful, citizens need accessible and user-friendly budget data, but they also need high-quality narrative information and public reasons or public justifications for decisions that the government wishes to take (or has already taken to address emerging challenges in budget implementation).<sup>28</sup> Encouraging both government institutions and members of the public to give, defend, and debate public reasons is at the core of the trust and mutual respect among citizens, and between citizens and the state, that should define a democracy. Thus, this agenda is around improving the quality of budget documents and information, and the ways in which these documents, and the decisions they embody, are discussed.

## 3. CREATING NEW SPACES FOR DIRECT PUBLIC ENGAGEMENT

As discussed above, many citizens wish to participate more meaningfully in day-to-day governance, at least in areas of particular interest to them. They are not content to leave decision-making to public institutions or elected representatives. Democratizing public finances thus also implies the need to create new spaces where members of the public can have a direct influence on priority setting as well as monitoring implementation. Various attempts to bring the public into decision-making spaces have been tried globally, via such avenues as participatory budgeting, citizens' juries, and crowd-sourcing.<sup>29</sup> One aspect of these efforts is that they encourage greater diversity in who is participating in decision-making by using alternatives to elections, such as self-selection and lottery. These mechanisms can bring new voices into decision-making that are otherwise marginalized by the electoral process. More work remains to be done, however, to structure participation in budgeting to ensure that it is effective, inclusive, and well-structured. This will involve experimentation with different approaches across the globe.

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<sup>28</sup> For more on public reasons for budget choices and actions, see J. Lakin (2018). "Assessing the quality of reasons in public budget documents," International Budget Partnership. Available at: <https://www.internationalbudget.org/publications/assessing-reasons-in-government-budget-documents/>

<sup>29</sup> F. Peonidis (2015). Democracy as Popular Sovereignty. Lanham, Md.: Rowman & Littlefield, 2013; H. Landemore, "Inclusive Constitution-Making: The Icelandic Experiment," *Journal of Political Philosophy*, 23(2): 166-91.

## CHALLENGES TO APPLYING A DEMOCRACY FRAME

Work in the three areas highlighted above faces a number of challenges, which apply more generally to conceptualizing public finance and government budgeting through a democracy lens. These include:

- **Democratic decisions about resource allocation might not be decisions we agree with on other grounds.** We would like to believe that if decisions are truly democratic, they will always also turn out to be objectively good and fair decisions, but this is not necessarily the case. The question arises as to what constraints can be put on democratization to ensure that the value of democracy does not trump other values, such as those related to justice as defined in the previous section (equality, efficiency, etc.). For example, democratic majorities might choose policies that reduce social benefits for vulnerable populations, creating a conflict between the value of democracy and the value of equity. A related problem that is sometimes manifest in participatory budgeting is when citizens are engaged with only part of the budget. This can lead to irrational decision-making where money is set aside for capital projects without the accompanying operational costs. Determining the scope and nature of democratic participation in the larger budget raises a number of challenges, particularly as the technical complexity of the decisions increases.
- **Promoting direct public participation can create conflicting mandates between citizen-focused processes and those led by representative institutions, such as the legislature.** It is not always clear who has the more legitimate mandate to represent citizen interests once alternative spaces for deliberation are created alongside traditional electoral institutions. Participatory spaces may bring in new voices but may also exclude others or encourage unaccountable behavior. The use of lottery can partly address some of these problems by ensuring that a truly representative sample is included in a discussion, but even lottery may not always ensure that the people, organizations, and communities most concerned about an issue are well represented. In some cases, these organizations and communities may actually be better represented by elected officials. Creating new participation opportunities can also mean duplication where both executives and legislatures are consulting citizens on the same issues in close succession, and without clarity about the purpose of multiple opportunities for engagement.
- **Defining our budget work in terms of democratization can be limiting if nondemocratic countries that are otherwise interested in improving their budget processes come to see this agenda as contributing to regime change.** We may wish to take a strong stand on democracy, but we may also find ways of advancing democracy in nondemocratic countries if we use different language. For example, some nondemocratic countries are comfortable with the idea of increasing public

participation in certain ways but would not refer to this as “democratic.” It is an open question whether fomenting these kinds of practices without using the language of democracy is a better long-run strategy for democratization or not.

## 5. USING A HUMAN RIGHTS APPROACH TO HELP REFRAME PUBLIC FINANCE

As can be seen from the previous sections, the promotion of justice and democracy in public finance and government budgeting relies on a substantial redistribution of resources and of power. This inevitably runs against important political obstacles, as those who benefit from the current state of things are not likely to let go easily of their privileges. Setting up campaigns aimed at putting pressure on governments to introduce reforms in budget policies and processes is what many groups have done until now, with limited systemic impact. Presenting a new, alternative narrative might be another way of trying to shift the terms of the debate and create broader consensus around the need for change. An additional way to approach the problem – which is gradually gaining recognition – is to rely on the growing body of international human rights norms, principles, and practices that can be applied to public finance issues. In many cases, governments have already ratified the relevant declarations and covenants, but are lagging behind in the actual implementation and incorporation of these into their domestic policies.

The Universal Declaration of Human Rights and two International Covenants – on Civil and Political Rights, and on Economic, Social, and Cultural Rights – form the basis for a number of obligations for states to respect, protect, and fulfil the basic human rights of their citizens, including the right to an adequate standard of living, to healthcare and education, to decent work, etc. All of these have very clear implications for both budget policies and processes. These obligations have been used in subsequent human rights jurisprudence to lay out some clear steps that all signatory states are supposed to comply with. They include<sup>30</sup>:

- **Progressive realization:** states should, within reasonable constraints, strive to continuously improve the fulfilment of everyone’s human rights over time through deliberate, concrete, and targeted policies. This has important implications for resource allocation, spending, and service delivery, for example.
- **Maximum available resources:** states should mobilize as many resources as possible to carry out their human rights obligations. This is clearly linked not only to taxation and to resource allocation

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<sup>30</sup> See Articles 2(1) and 2(2) of the International Covenant on Economic, Social and Cultural Rights, available at: <https://www.ohchr.org/en/professionalinterest/pages/cescr.aspx>.

issues, but also to ensuring that allocated resources are not left unspent, and to choices around deficits and financing.

- **Non-discrimination and equality:** in complying with their human rights obligations, states should not discriminate on the basis of race, color, sex, language, religion, etc. This also has important implications for resource allocation and spending and justifies a more proactive approach by governments in promoting specific policy initiatives – and their related budget implications – that addresses the needs of groups that are discriminated against.

These obligations can be used not only to assess and evaluate existing policies, but also to propose alternatives that are much more in line with considerations of justice, and to use legal mechanisms to ensure that governments respect and fulfill human rights requirements embedded in their Constitutions. IBP and some of its partners have compiled a handbook with summaries of civil society campaigns that use a human rights lens to budget work<sup>31</sup>. Other researchers have looked at the impact of the global financial crisis on the realization of human rights for disadvantaged groups like women and children<sup>32</sup>, or at how different types of economic policies – including taxation and spending – can be assessed and compared using a human rights lens<sup>33</sup>.

In addition, the human rights framework also includes some important provisions with regard to transparency, access to information, and participation in public affairs. Articles 19 and 21 of the Universal Declaration of Human Rights<sup>34</sup> provide the background on which subsequent covenants, interpretations, and jurisprudence have been based to ensure that states have an obligation to guarantee that their citizens can effectively exercise their right to participate in the political and public affairs of their country – an idea that is clearly linked with our proposals on the need to democratize budget processes.<sup>35</sup>

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<sup>31</sup> See the publication “Article 2 & Government Budgets” (2014).

<sup>32</sup> See D. Elson (2012). ‘The reduction of the UK budget deficit: a human rights perspective’, *International Review of Applied Economics*, 26(2): 177-190.

<sup>33</sup> See R. Balakrishnan and D. Elson (2011). *Economic Policy and Human Rights. Holding Governments to Account*. London: Zed Books.

<sup>34</sup> See [http://undocs.org/A/RES/217\(III\)](http://undocs.org/A/RES/217(III)).

<sup>35</sup> An interesting line of inquiry and practice here is being developed across Latin America, where citizen groups have taken governments to court to get them to fulfill their human rights obligations, and where the judiciary has in certain occasions taken on a mediator role between citizens and governments, which has been referred to as “dialogic justice”, or a system “in which the different branches of official power and the people at large engage in a common, ongoing conversation concerning how to calibrate the proper balance between constitutional principles and public policies.” See R. Gargarella (2015). “Deliberative democracy, dialogic justice and the promise of economic and social rights”, in H. Alviar Garcia, K. Klare and L.A. Williams (eds.) *Social and Economic Rights in Theory and Practice: Critical Inquiries*. London and New York: Routledge. We thank Martin Sigal for pointing this out to us.

## CHALLENGES TO APPLYING A HUMAN RIGHTS LENS

As with other areas, the fruitful application of a human rights frame to public finance issues needs to take a number of challenges into account. Here are a few worth mentioning:

- **Human rights principles and criteria do not provide clear guidance on policy choices and trade-offs.** The focus on indivisibility and universality in human rights approaches makes it difficult to decide, for example, which needs should be addressed first, or how to assess trade-offs and define priorities in resource-scarce environments, e.g. between investing in maternal health or road infrastructure. In this sense, a human rights approach to budgeting cannot be separated from discussions on turning the process through which budget decisions are taken more democratic and participatory, as these aspects will determine how choices are discussed and made, and the extent to which different human rights obligations are met or not.
- **The prescriptive nature of human rights obligations may preempt fruitful dialogue and deliberation on policy choices.** Democratic majorities may actually prefer, for example, to cut the health budget to fund more roads, even it could be argued that cutting the health budget goes against progressive realization and is in more direct contradiction with the fulfilment of basic human rights. A similar challenge may arise around decisions on deficits and debt, as it is not clear how the human rights framework would help address issues of intergenerational equity. When facing complex decisions, the apparently straightforward application of human rights standards may limit and undermine deliberative processes.
- **Using a human rights approach might make dialogue with governments more difficult.** Given the legal obligations that human rights generate for states as duty bearers, governments have often been reluctant to engage in dialogue with human rights groups and activists, knowing that fulfilling all of their human rights obligations would greatly reduce their policy flexibility and possibly be unrealistic given fiscal constraints. Using the courts to advance human rights claims may help create further spaces for deliberation, but it may also reduce avenues for direct dialogue and collaboration between governments and citizens or CSOs.

## 6. CONCLUSIONS

Current approaches to public finance and government budgets, with their narrow focus on macroeconomic stability and economic growth, have fallen short in responding to citizens' needs and promoting socioeconomic development that benefits all. Their inability to tackle issues like persistent poverty and growing inequality may have also fostered growing levels of mistrust between governments and citizens, fueling the rise of populism across a number of countries. This paper has begun to lay out a broad approach that can help reframe some of the current debates around public finance and government budgets. It proposes a shift in the way in which fiscal policies are formulated, decided upon, and implemented, building on ideas and principles of justice, democracy, and human rights.

In this alternative approach, the main aim of fiscal policies would become that of promoting equity and justice, for example through progressive taxation, universal provision of basic services, and targeted transfers to poor, vulnerable, and disadvantaged groups. The need for fiscal discipline would still be recognized but reinterpreted to address the long-term sustainability of public finances while ensuring adequate "fiscal space" for governments to fund priority spending. The focus on efficiency would be complemented by an emphasis on effectiveness in service delivery, to ensure public spending delivers on key results such as addressing basic needs and promoting equality. And the processes and institutions through which budget decisions are taken would be redesigned to become more inclusive, democratic, and participatory, so as to facilitate better informed dialogue and deliberation. The four pillars of **equity, sustainability, effectiveness, and inclusion**, in other words, could form the basis of a proposal for how decisions around public finance and government budgets should be taken.<sup>36</sup>

The paper discussed both the advantages and challenges of using of justice, democracy, and human rights as part of a new approach for reframing public finance discussions. There are some clear areas of overlap and potential complementarity among the three different frameworks. For example, issues of procedural justice and human rights provisions on transparency and participation can complement and strengthen arguments in favor of the democratization of budget processes. And basic needs and equality, the key principles in our justice frame, are well represented in human rights principles and approaches. The three frameworks should therefore not be seen as alternative but as complementary, or as more or less relevant depending on circumstances. For example, a human rights frame might be more appropriate when dealing with poverty issues, while justice may be more useful when discussing inequality. Each of them has pros and cons, too. Human rights can be considered as the most robust and best codified but might be less useful for building broad coalitions and dialoguing with government actors. Despite its long history, justice is still considered a fuzzy concept by many in the budget field, but it certainly speaks to

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<sup>36</sup> See this recent IBP blog post for a more general argument in support of these four principles: <https://www.internationalbudget.org/2019/02/fiscal-futures-putting-the-public-back-into-public-finance/>.

people's intuitions and emotions, and helps highlight clear imbalances in existing fiscal policies. Democracy is more about process than policy, so it may be relevant in a more limited domain and can also be seen as contentious in some contexts, but it is of fundamental importance for redesigning how decisions are taken in support of the "new" public finance priorities and for ensuring their legitimacy.

How can we start making progress towards some of the changes necessary to promote such a large shift in the framing of public finance issues? Attempting to shift a consensus that has been in place for a good part of the last half century is no easy feat. Many of the issues mentioned, related to both budget policies and processes, are areas of work that IBP, its partners, and other organizations have already been working on for some time, albeit arguably with limited impact. Some of the key challenges relate to: (a) finding ways to better connect the different groups working on similar issues but using different concepts and frameworks; (b) broadening and deepening the scope and reach of the work being done; (c) bringing new actors into the discussion and finding new allies; (d) demonstrating the usefulness of the alternative approach being promoted by developing new tools that can contribute to assessing and guiding policy choices, for example in terms of their impact on equity and justice; and (e) thinking about ways to collectively push for the necessary shifts in current debates on public finance, and to tackle the powerful interests that are likely to resist such shifts. This last point is particularly important. It highlights the need to develop and test new narratives, both highlighting the limitations of existing approaches to public finance, and presenting a new, alternative vision for "putting the 'public' back into public finance" around which different actors can coalesce and work together.

Progress on any of the above challenges will inevitably depend on a number of factors well beyond IBP's own capacities and reach. We hope that this paper will stimulate further discussion that can generate interest among a broad set of actors to join the cause. Reframing public finance is not only necessary to address some of the key challenges of our time but could provide ways to revive democratic practices and values and increase the level of public trust in institutions that has been declining. The challenges are great, but so is the ambition.